

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 IO-13 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

AF-08 ARA-06 EUR-12 NEA-10 OIC-02 /139 W

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FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 9997

INFO AMEMBASSY SEOUL PRIORITY

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E.O. 11652: N/A

TAGS: GATT, ETRD, KS

SUBJECT: GATT BALANCE OF PAYMENTS CONSULTATION WITH KOREA

REF: STATE 103935

SUMMARY: KOREA PROMISED TO CONTINUE EFFORT LIBERALIZE ITS IMPORT REGIME TO EXTENT BALANCE OF PAYMENTS WILL PERMIT, BUT STRESSED THAT CURRENT ACCOUNT DEFICIT REQUIRES MAINTENANCE OF CONTROLS. IMF SAID KOREA RESTRICTIONS NECESSARY TO PREVENT DECLINE IN RESERVES. BOP COMMITTEE AGREED WITH IMF CONCLUSIONS, BUT NOTED THAT KOREA'S BOP PROSPECTS WERE FAVORABLE, EXPRESSED CONCERN OVER COMPLEXITY AND LACK OF CLARITY OF KOREAN IMPORT REGIME, AND URGED THAT KOREA CONTINUE EFFORTS TO SIMPLIFY AND STREAMLINE SYSTEM. END SUMMARY.

1. DURING MAY 3 GATT BALANCE OF PAYMENTS COMMITTEE ARTICLE XVIII CONSULTATION, KOREA SAID THAT CURRENT ACCOUNT DEFICITS IN 1974 AND 1975 REQUIRED IT TO MAINTAIN RESTRICTIVE
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MEASURES ON IMPORTS OF NON-ESSENTIAL COMMODITIES AND TO

FOLLOW TIGHT MONETARY POLICY. KOREA ACKNOWLEDGED THAT EXCESSIVE IMPORT RESTRICTIONS COULD BE HARMFUL TO EXPORTS AND PROMISED, AS FAR AS ITS BALANCE OF PAYMENTS PERMITS, TO CONTINUE TO FOLLOW A POLICY OF TRADE LIBERALIZATION. KOREA ALSO ASKED THAT DEVELOPED COUNTRIES REFRAIN FROM ENACTING TRADE BARRIERS WHICH AFFECT DEVELOPING COUNTRIES EXPORTS.

2. IMF REP NOTED THAT KOREA'S BOP POSITION WAS STILL DIFFICULT IN 1975, ALTHOUGH POSITIVE TRENDS WHICH BROUGHT ABOUT TRADE BALANCE IMPROVEMENTS SECOND HALF OF 1975 CONTINUED INTO 1976. EXPECTED LONG-TERM CAPITAL INFLOWS AND REDUCED CURRENT ACCOUNT DEFICIT SHOULD LOWER RELIANCE ON SHORT-TERM FINANCING. EXTERNAL DEBT HAS INCREASED RAPIDLY AND ITS MATURITY STRUCTURE HAS DETERIORATED, BUT DEBT STILL WITHIN MANAGEABLE LIMITS. IMF ALSO NOTED THAT CURRENT ACCOUNT DEFICIT IS EXPECTED TO CONTINUE AND RESERVES, ALTHOUGH LOW, ARE ADEQUATE. FUND SAID: "IN VIEW OF THE ABOVE, THE REMAINING RESTRICTIONS IN EFFECT DO NOT GO BEYOND THOSE NECESSARY TO PREVENT A DECLINE IN KOREA'S MONETARY RESERVES."

3. IN RESPONSE TO QUESTIONS FROM U.S. AND OTHERS ON BOP PROSPECTS, KOREA SAID 1976 CURRENT ACCOUNT DEFICIT EXPECTED TO BE \$1.4 BILLION AND IN 1977, \$1.2 TO 1.3 BILLION. HOWEVER, THESE ESTIMATES MAY BE TOO HIGH AS EXPORTS IN 1976 ARE NOW EXPECTED TO BE \$7 BILLION RATHER THAN \$6.5 BILLION.

4. EC, JAPAN AND CANADA TOOK EXCEPTION TO CLAIM ON PAGE 7 OF KOREA'S BOP PAPER (BOP/1521 REB. 1) THAT KOREA'S BOP SITUATION ADVERSELY AFFECTED BY STRUCTURAL CHANGES IN ITS ECONOMY WHICH SHIFTED EXPORT GROWTH FROM LIGHT INDUSTRIES TO HEAVY INDUSTRIES. THEY NOTED SUCH STRUCTURAL CHANGES ARE A NORMAL PROCESS OF ECONOMIC DEVELOPMENT AND RECENT STATISTICS INDICATE TREND HAS TEMPORARILY STOPPED.

5. ON LEVEL OF DEBT, KOREA SAID THAT ITS DEBT SERVICE RATIO IN 1975 WAS DOWN TO 12.6 PERCENT FROM 21 PERCENT IN 1970 AND RATIO WILL REMAIN WITHIN MANAGEABLE LEVELS. (IT IS EXPECTED LIMITED OFFICIAL USE

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TO CLIMB TO 15 PERCENT BY 1978, BUT FALL TO 12 PERCENT AGAIN BY 1981.)

6. IN ORDER TO RESTORE BOP EQUILIBRIUM KOREA SAID IT WILL PUT MORE EMPHASIS ON SOUND BALANCE OF PAYMENTS AND PRICE STABILITY AND AS CONSEQUENCE HAS HAD TO LOWER ITS GNP GROWTH TARGET FOR 1976 FROM 9 PERCENT TO 7-8 PERCENT RANGE. INFLATION EXPECTED TO BE HELD TO 10-12 PERCENT IN 1976. OTHER IN-

TERNAL MEASURES TAKEN TO IMPROVE BOP ACCORDING TO KOREAN REP
INCLUDE NATIONAL SAVINGS CAMPAIGN, REDUCED SUBSIDY FOR FERTILIZER,
INCREASED GRAIN PRICES, AND EFFORTS TO ACHIEVE SELF-SUFFICIENCY
IN FOOD GRAINS, STRENGTHEN IMPORT SUBSTITUTION AND REDUCE ENERGY
CONSUMPTION.

7. PER REFTEL (A) U.S. EXPRESSED CONCERN THAT KOREA'S
IMPORT REGIME WAS UNDULY COMPLEX AND RESULTED IN HIGH
COSTS FOR THE KOREAN ECONOMY. OTHER MEMBERS OF THE
COMMITTEE STATED THEIR CONCERN OVER THE LACK OF TRANSPA-
RENCY AND INSTABILITY OF THE KOREAN IMPORT SYSTEM AND
NOTED THIS IN ITSELF POSED SIGNIFICANT IMPORT BARRIER,
ESPECIALLY FOR DISTANT FOREIGN SUPPLIERS. IN RESPONSE
TO U.S. QUESTION WHETHER SUFFICIENT CONTROL OVER IMPORTS
COULD BE ACHIEVED THROUGH TARIFF MEASURES RATHER THAN
THROUGH ADMINISTRATIVE RESTRICTIONS, GOK REP STRESSED
THAT IN HIS VIEW AT THIS TIME KOREA HAS NO CHOICE BUT
TO TAKE EVERY MEASURE TO CONTROL IMPORTS. KOREA HOPES
IN THE FUTURE TO PURSUE IMPORT LIBERALIZATION AND IF
POSSIBLE TO ABOLISH ALL RESTRAINTS. GOK REP ACKNOWLEDGED
THAT SYSTEM IS EXPENSIVE BUT CLAIMED KOREA HAS MADE PRO-
GRESS IN MOVING FROM ADMINISTRATIVE RESTRICTIONS SUCH AS
IMPORT QUOTAS TO PRICE-RELATED MECHANISMS SUCH AS FIXED
AND VARIABLE TARIFFS AND PRIOR DEPOSITS. FUTURE PROGRESS
WOULD DEPEND OF COURSE ON THE EVOLUTION OF THE BALANCE
OF PAYMENTS.

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INFO OCT-01 EA-07 IO-13 ISO-00 AGR-05 CEA-01 CIAE-00

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8. IN REPLY TO CANADIAN QUESTION KOREA SAID THAT IT ABOLISHED IN 1974 THE DISCRIMINATORY LICENSING SYSTEM AGAINST COUNTRIES WITH WHICH IT HAD LARGE TRADE DEFICITS AND THAT NO DISCRIMINATORY RESTRICTIONS PRESENTLY EXIST.

9. MEMBERS OF THE COMMITTEE COMPLAINED THAT KOREA'S IMPORT LICENSING SYSTEM WAS ANOTHER CAUSE OF UNCERTAINTY FOR EXPORTERS. KOREA CONTENDED THAT THE SYSTEM WAS NOT EXCESSIVELY RESTRICTIVE AND COMPLEX. BY COOPERATING WITH KOREAN REGISTERED IMPORTERS KOREA CLAIMED FOREIGN SUPPLIERS COULD OVERCOME ANY DIFFICULTIES. IN RESPONSE TO QUESTIONS FROM U.S. AND SWEDEN, KOREA SAID THAT SEMI-ANNUAL TRADE PLAN WAS PUBLISHED IN A CONSOLIDATED FORM IN KOREAN AND THAT U.S. MEBASSY IN SEOUL COULD GET A COPY OF IT.

10. ON PRIOR IMPORT DEPOSITS KOREA ASSURED COMMITTEE THAT THE MEASURE WAS TEMPORARY AND WAS INTRODUCED AT THE WORST PERIOD OF KOREA'S 1975 BOP DIFFICULTIES. KOREA SAID DEPOSIT MEASURE INTENDED TO CURTAIL IMPORTS, REDUCE DOMESTIC LIQUIDITY AND PROMOTE SUPPLIER FINANCED IMPORTS;
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KOREA IS STUDYING POSSIBILITY OF REDUCING DEPOSIT REQUIREMENTS IN THE LATTER PART OF YEAR. HOWEVER, SUDDEN CHANGES IN THE SYSTEM WOULD BE HARMFUL TO STABILIZATION EFFORT, AS THEY WOULD LEAD TO RAPID INCREASES IN DOMESTIC LIQUIDITY.

11. KOREA CLAIMED TO BE MAKING GREAT EFFORTS TO SIMPLIFY AND IMPROVE TARIFF SYSTEMS AND CITED AS EXAMPLES THE DRAWBACK SYSTEMS FOR RAW MATERIALS RE-EXPORTED AND UNITARY TARIFF. PURPOSE OF NEW TARIFF IS TO ELIMINATE THE DIFFERENCES IN LEVEL OF PROTECTION OF DIFFERENT INDUSTRIES.

12. IN CONSLUSION THE COMMITTEE: "AGREED WITH THE IMF THAT KOREA'S PRESENT BALANCE OF PAYMENTS POSITION JUSTIFIED IMPORT RESTRICTIONS UNDER ARTICLE XVIII: SECTION B OF THE GENERAL AGREEMENT. IT NOTED THAT KOREA'S BALANCE OF PAYMENTS PROSPECTS WERE FAVORABLE AND WELCOMED THE INTENTION OF THE KOREAN GOVERNMENT TO REDUCE THE LEVEL OF RESTRICTIONS AS THE PAYMENTS POSITION IMPROVES. THE COMMITTEE COMMENDED KOREA ON THE ELIMINATION OF ALL DISCRIMINATORY RESTRICTIONS. THE COMMITTEE EXPRESSED ITS CONCERN OVER THE UNDUE COM-

PLEXITY, THE LACK OF TRANSPARENCY AND THE INSTABILITY OF KOREA'S SYSTEM OF TRADE CONTROLS. THE COMMITTEE NOTED THAT THE INSECURITY TO WHICH THE SYSTEM GAVE RISE MADE IT DIFFICULT FOR FOREIGN SUPPLIERS, IN PARTICULAR THOSE IN DISTANT COUNTRIES, TO PLAN INVESTMENTS AND SHIPMENTS. THIS ACTED AS A BARRIER TO IMPORTS AND CREATED COSTS THAT WOULD IN THE END HAVE TO BE BORNE BY THE KOREAN ECONOMY. FOR THESE REASONS, THE COMMITTEE URGED THE KOREAN AUTHORITIES TO CONTINUE THEIR CURRENT EFFORTS TO SIMPLIFY AND STREAM-LINE THE TRADE CONTROL SYSTEM."

13. COPIES OF COMMITTEE REPORT BEING POUCHED WASHINGTON AND EMBASSY SEOUL. ABRAMS

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Message Attributes

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